

DEBT.

Setting priorities pays off.

If you're stressed about the amount of debt that you have, you're not alone. More and more students find themselves with a mountain of money to pay back and no clear picture of how to go about getting started. Increasing debt loads are hard to avoid and getting a clear picture of ways to deal with your debt is essential to getting on the path to financial success.

Understanding how some of the most common types of debt work is a key step to prioritizing the best way to pay it off. This information sheet will give you a high level understanding of how each type of debt works and offer suggestions for ways to pay it off. You'll need to examine the terms and conditions of each type of debt before you establish your priority of payoff.

Many students report that they don't even know how much debt they have. You'll have a hard time paying off debt if you don't know how much you

owe. Use a chart similar to Chart A below to help you to decide your debt payoff priorities.

Be brave and add up your debts. All of your minimum payments will add up to the total amount you must pay each month toward your debts. As you pay off debts, simply move the minimum monthly payment of the paid debt to the debt you wish to pay off next. (See Chart B below.)

In the example you can see that this person pays \$250 per month toward three debts. At \$100 per month, the Collection Agency debt is paid off in five months. (See Chart C below.)

After the credit card is paid off, the \$200 that was going to that debt is moved to the student loan, raising that payment to \$250 per month. Making one payment and sticking to it burns the debt significantly faster than continuing on with a minimum monthly payment.

continued on back...

Chart A

Type of loan	Amount owed	Minimum payment	Interest rate	Priority

To use this chart, simply gather up all your bills. Type of loan might be student loan, credit card, etc. Next, enter the total amount owed and the minimum payment due each month. Your interest rate will determine the debt you want to concentrate on paying off first. Next, set a priority for each debt; 1 is the highest priority, 2 is medium and 3 is your lowest priority debt.

Chart B

Type of loan	Amount owed	Minimum payment	Interest rate	Priority
Credit card	\$1200	\$100	16%	1
Student loan	\$5000	\$50	6.8%	2
Collection agency	\$500	\$100	12%	1

Chart C

Type of loan	Amount owed	Minimum payment	Interest rate	Priority
Credit card	\$1200	\$100	16%	1
Student loan	\$5000	\$50	6.8%	2
Collection agency	\$500	\$100	12%	PAID!

Debt has its uses. Without it, many people wouldn't be able to afford houses, cars, education or be able to start a business. Too much debt can make it difficult to have a realistic budget plan and can interfere with your goals.

The most common types of debt are either secured or unsecured. A secured debt is a loan taken out on something that has value, such as a car or home. If the secured debt isn't paid back, the lender can take back the item for which the loan was procured. Unsecured debt, such as a student loan or credit card debt doesn't have any secured object to take back. Typically, secured debts have a lower interest rate as there is less risk for the lender involved. The lender can, as a last resort, get most of their capital back by taking back whatever the loan was taken out for.

GET HELP IF YOU NEED IT

The statute of limitations on most debts is determined at the state level. For many states, seven years is the common statute for many types of debts. Any federal or state owed debts usually have different rules. If you haven't paid your debts for a very long period of time, you may want to consider seeking low cost legal advice. Many colleges and universities as well as many communities offer resources for sliding scale legal assistance.

THE PROBLEM WITH MINIMUM MONTHLY PAYMENTS

Making minimum payments can be very costly. As an example, paying the minimum monthly payment on a \$1000 credit card with a 16% interest rate will turn into a long term commitment. Chances are, when that \$1000 in charges is repaid, you'll very likely not remember what you even purchased. In addition, your interest charges will be more than the original amount charged.

If you're having trouble, don't be afraid to ask for help. See a credit counselor. By doing so, you may be able to avoid more drastic alternatives later. Use bankruptcy as a last resort. Bankruptcy typically has a few hundred dollars in legal fees but adversely affects credit ratings for seven to ten years. Bankruptcy should be considered only in a worst case scenario. It may be difficult for individuals who have been bankrupted to rent apartments or appear responsible to a potential employer that uses credit reports as part of their screening process.

Managing your debt by having a plan for priority payoff is vital to getting rid of it quickly. Take a little time to make a plan for debt payoff. You'll reduce your stress and feel in control of your finances.